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SUBJECT: PETROAMERICA: CHAVEZ'S OIL DREAM FOR THE AMERICAS

REF: CARACAS 1550

Classified By: Economic Counselor Richard Sanders, for reasons 1.4 (b) and (d)

SUMMARY

1. (C) Energy Vice Minister Luis Vierma told Emboffs July 12 that discussions with Caribbean nations on the formation of a "PetroCaribe" joint venture are at a preliminary stage. According to Vierma, the GOV's plans for the Hemisphere envision a holding company "PetroAmerica" that would have three subsidiaries, PetroCaribe, PetroSur, and PetroAndino. These companies would be involved primarily in the downstream functions of the oil industry, i.e. refining and commercialization. Although Vierma made no reference to any political element to "PetroAmerica" or its would-be components, it is inescapable. We believe Venezuela is aggressively pushing its plans for the integration of energy companies throughout the Hemisphere to gain political strength. End summary.

2. (U) On July 12, Econcouns, accompanied by Petroleum Attache, met with Vice Minister for Hydrocarbons Luis Vierma to discuss a wide range of issues. His comments on Venezuelan production and upcoming projects are presented in septel.

PETROAMERICA: AN OIL COMPANY FOR THE AMERICAS

3. (C) On July 12, Reuters reported that on July 10 the GOV had signed "a preliminary energy cooperation accord with 11 Caribbean nations which aims to refine Venezuelan crude into cheaper products for the region." According to the report, the signatories to the agreement were Guyana, Antigua and Barbuda, the Bahamas, Dominican, Jamaica, Trinidad and Tobago, St. Vincent and the Grenadines, St. Kitts and Nevis, Suriname, Grenada, Cuba and Venezuela. Emboffs raised this story with Vice Minister for Hydrocarbons Luis Vierma, who explained that the GOV's discussions with the Caribbean nations are at a preliminary stage. Vierma described the July 10 meeting as one in which the Caribbean representatives described the serious impact of high oil prices on their economies. He characterized the July 10 document as a "joint communique" rather than an "accord," showing their intent to continue studying the concept. If the talks are successful, Vierma said, the resulting joint venture, PetroCaribe, would be one of three subsidiaries of a holding company called PetroAmerica. The other two would be PetroSur and PetroAndino. These companies would be involved in the downstream functions of the oil industry, i.e. refining and commercialization.

PETROCARIBE

4. (C) Turning first to PetroCaribe, Vierma, an engineer, drew a chart demonstrating the flow of products through the refinery process, to transportation, storage and commercialization. In its initial phase, PetroCaribe would be a joint venture company that would harness the synergies in the refinery sector among Venezuela, Trinidad & Tobago, and Jamaica. Venezuela would ship oil to Trinidad & Tobago's 160,000 b/d refinery and Jamaica's 35,000 b/d refinery. The joint venture would then handle the marketing of the refined products to the smaller islands in the Caribbean by a fleet of boats. Each island would invest in storage tanks and service stations which would give it an equity stake in PetroCaribe. Pointing to the Bahamas as an example, Vierma said its gasoline is now \$4/gallon. PetroCaribe, he said, might eventually be able to subsidize that cost, depending on PetroCaribe revenues and the equity share of the Bahamas in

the joint venture.

5. (C) When Emboffs asked if the intent is for PetroCaribe to

take over the market share of private sector companies, Vierma responded that companies now in the Caribbean market, such as Shell, would be invited to participate. For one thing, he noted, the would-be partners do not have the tankers needed to transport the refined products through the island chains. Vierma added that the entire Caribbean, including Cuba and "even Puerto Rico," could participate. Energy Minister Ramirez subsequently announced to the Venezuelan press on July 14 that regional energy ministers will meet August 26-27 in Jamaica to work on creating PetroCaribe. Ramirez is quoted in the press as having said that the venture seeks to cut out middlemen in the Caribbean.

PETROSUR

16. (C) "PetroSur," said Vierma, would encompass the deal, signed April 6, under which Venezuela sells fuel oil and diesel fuel to Argentina in exchange for Argentine food and manufactured products (see reftel). Vierma added that the GOA has also approached PDVSA to propose that PDVSA join it in evaluating certain Argentine exploration blocks.

PETROANDINO

17. (C) With respect to the eventual formation of a "PetroAndino," Vierma noted that Venezuela had signed a technical agreement with Bolivia on May 13 and had also inked an agreement on LPG with Ecuador. He characterized Peru as "cold" to the prospects of a joint venture, while Venezuela and Colombia are still discussing the possibilities of a cross-border gas pipeline (this will reportedly be an issue in the July 14 meeting between Presidents Chavez and Uribe). This pipeline would be designed initially to carry Colombian gas to western Venezuela. The flow would be reversed as Colombian stocks decline and what are expected to be robust Venezuelan stocks are brought on line.

COMMENT

18. (C) Although Vierma made no reference to any political element to "PetroAmerica" or its would-be components, it is inescapable. In fact, Minister of Energy and Mines Rafael Ramirez was quoted in the July 12 Reuters report as saying with respect to PetroCaribe, "it is important to understand that this type of accord is not a commercial accord....but fundamentally ...is a political agreement." Petro-diplomacy has a long tradition in Venezuela, although it has usually been used with the Caribbean and Central American countries which are signatories of the San Jose and Caracas Energy Accords. Venezuela's efforts to push its plans for the integration of energy companies throughout the Hemisphere, however, is in line with President Chavez's desire to gain political strength and to play a larger role in the Hemisphere. The development of broader export markets for Venezuela's oil would also be a logical step toward President Chavez's goal of shifting Venezuela's oil away from its current market -- the U.S.
McFarland

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